LFAMONEYTALK

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Life-changing events and your finances

We know it's a cliché but life is a journey and your circumstances and priorities change. Major changes tend to have financial consequences. Here we highlight some of them.

You will probably go through a number of life-changing events over the years, hopefully mostly for the better, although few of us get through without some unhappy ones. We inevitably get caught up in the emotions and practical issues these events throw at us. But major changes tend to have financial consequences. So when something significant happens, make sure you check your finances and make any adjustments required.

Getting married or living together

The good news is that living together is generally cheaper than living alone. Things to review at this exciting time include your Will, pensions and investments, together with life and critical illness insurance. Review your joint income and expenditure and agree a plan. You may find that jointly you have more spare cash. Time to start planning to make your dreams happen!

Bringing up children

Your income may fall and your outgoings will certainly increase – for around 18 years or so. You will want to provide your family with financial security so it is important to review your Will, make sure you have enough life assurance to protect the family's finances, particularly important if you are taking a career break and losing valuable benefits and maybe start saving for school or university fees.

Death of a partner or parent

This is a difficult time, when it is important to consider the financial impact of the death on remaining family members, ensuring they are financially secure and that money is invested appropriately and tax-efficiently.

Promotion or changing jobs

If your salary has increased, do you now have surplus income? If so what would you like to use it for? Saving towards a deposit on your first home (or helping your children on to the property ladder)? Paying for your (or your children's) wedding? Boosting your pension provision? Making overpayments in your mortgage? The amount going into your pension each month will also have increased. Could you be in danger of exceeding your Lifetime Allowance, the maximum amount that you can hold in your pension without having to pay additional tax when you access it?

If you have changed employer, what are the implications for your pension scheme and other employee benefits? Does your new employer offer the same (or better) benefits as your previous one? If not, consider whether you should replace them.

Divorce or separation

Making sensible financial decisions during this highly emotional time can help you get back on a sound financial footing and protect the interests of any children. Should you sell the family home or buy out your partner and take out a new mortgage? Can you split or share your pensions or do you need to set up a new pension? What about any joint investments? Do you need to protect your new lifestyle and that of your children?

Talk to a professional financial adviser

When something in your life changes financial issues are often the last thing on your mind. Yet consulting a professional financial adviser can help ensure that you make the most of your money, whatever the change to your circumstances.

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To book a financial review call...

Richard Cakans on 016973 25852 or 07946 438807 or email richard.cakans@lighthousefa.co.uk

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Time to give your personal finances a mid-life MOT?

As you get older your priorities change, and the way your personal finances are organised needs to change too. It's time to give your financial planning an MOT.

Do you know how many pensions you have? And how much they are worth? Maybe you would like to help your children buy their first home but are not sure of the best way of doing this. And, with retirement just over the horizon, you may be worried that you won't have enough income when you retire.

Giving your personal finances a thorough overhaul can help you resolve these and other concerns and the best way of doing this is to consult a professional financial adviser.

How we helped Mr Johnson get back on track

Mr Johnson*, an engineer in his early 50s, is divorced with two children. Last May he decided to book an appointment with one of our advisers. "Although I enjoy my job and want to continue working for as long as I can, I wanted to know that when I do eventually retire I will be OK financially. I wasn't sure when I would get my state pension and had pensions from previous employers I had neglected, in addition to my pension from the utility company where I now work. Plus I had a few random savings accounts that I had opened years ago and which didn't seem to have increased in value."

Jane, his financial adviser, asked Mr Johnson about his income and expenditure now, whether he was likely to inherit any money, plans for his retirement and other things, including whether he would like to help his children financially.

"Mr Johnson is fortunate in that he will have paid off his mortgage in five years' time. However, he has agreed to help his son with the cost of going through medical school and his outgoings will increase. I started by tracing Mr Johnson's previous pensions. It turned out that he had three small pension pots from employers early on in his career, in addition to that of his current employer. It made sense to put them into a single fund, with the money invested for long-term growth in line with Mr Johnson's risk profile.

Using savings to boost income

"His savings accounts were cash ISAs earning next-to-no interest, despite it being paid tax-free. We decided to keep three months' worth of expenditure in the account paying the most interest as emergency money. We transferred the balance to a fund that generates regular tax-free income, in order to help pay for his son's training. He can stop taking the income if he no longer needs it, for instance when he finishes paying off his mortgage, or if he inherits money from his parents."

Ways of paying for long-term care for Mr Johnson's parents

"I also asked Mr Johnson whether he would like me to review his parents' finances and explain how they may be able to pay for long-term care (if it is needed) without having to sell their home or deplete their modest savings. He hadn't realised that this might be possible. He mentioned this to his brother and parents who agreed that it would be a good idea at least to understand the options."

I now know I can manage

Mr Johnson is happy that his finances are now arranged in a way that suits him. "Jane was fantastic. She listened and understood my concerns. I now know I can manage to help my son through his long training. And looking further ahead, my pensions should give me enough to live on without having to worry. Anything I end up getting from my parents will be a bonus."

* We have changed real names to preserve anonymity. All financial details reflect the circumstances of the client.

Book a mid-life financial MOT

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The value of your investments, and the income you receive from them, can go down as well as up, so you could get back less than you put in. A pension is a long-term investment and inflation will reduce how much your income is worth over the years. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation.

How to make your savings work harder

Whatever you are saving for – the deposit on your first home, your wedding or to help your children through university – it is important to put your money in a plan that gives it the potential to grow.

It's all very well putting money aside, but where precisely are you going to put it? A standard deposit account may seem like the safe option, but with interest rates at all-time lows, your money will grow painfully slowly and could end up being worth less in real terms once you take inflation into account. Here we explain how you can make your savings work harder for you.

The whole point of saving money is to make it work hard, so that even a small amount each month has the chance to grow into a sizeable amount over time, so you can make your dream come true.

With money on standard cash accounts still lower than inflation, unless you take action your savings will end up shrinking in real terms. Assuming this trend continues, you will be able to buy less with your savings in, say, seven years' time than you can now.

Giving your savings the potential to grow

Putting your savings into stock market investments is more likely to be a sensible choice if you are saving for the longer term, for instance five or more years, and gives you the potential for capital growth and income or interest. However, unless you have plenty of spare time and the detailed knowledge required to research appropriate investments, you should ask a professional financial adviser to recommend suitable funds.

Reducing risk

Stock market investments are inherently risky – the value of stocks, shares and funds can go down as well as up – but there are ways of reducing risk.

One is by not buying individual stocks, shares, bonds or other types of investments directly. Most people put their money into one or more investment funds that then invest the pool of investors' money across a broad range of types of investments. This ensures that you do not have all your eggs in one basket. Another is by choosing investment funds that are managed in a way that suits your attitude to risk. Some people are more willing or can afford to take more risk than others. Your financial adviser will help you work out your risk profile and can then recommend investment funds that match it. Your risk profile may change with your age and circumstances. Your financial adviser will review it with you regularly.

How much might you have missed out on?

If you had stashed away £50,000 in a savings account earning the UK base rate in 2009 today you would have £52,510. With inflation higher than the base rate for most of that time, you would have become poorer in real terms.

If instead you had put your £50,000 in UK equities, you would now have something in the region of £133,553.

Give your savings the potential to grow

You may decide that the market looks too risky to invest. But in a world where inflation is higher than savings rates, taking no risk is risky too. The best thing to do is to consult a professional financial adviser who can recommend funds that match your attitude to risk while giving your money the potential to work harder for you.

The value of your investments, and the income you receive from them, can go down as well as up and you may get back less than you put in.

Source: FE Analytics 27 August 2019.

Make your savings work harder

To find out if you can make your savings work harder call…

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Turned 60 and worried about your pension?

The good news is that you still have time to sort things out Here is a check list of what you need to do to ensure you get as much income in retirement as you can.

Check your retirement age

When you first started work you probably expected to retire at 60. Now you are unlikely to get your state pension until you turn 66. Why not use the government's online facility at www.gov.uk/state-pension-age to find when you will be entitled to receive the state pension?

Will you get the full state pension?

Have you had a career break, for instance to raise a family or maybe you were out of work for a while, or worked abroad? Were you one of the many people who opted out of SERPs in the 1980s and 1990s? If so, you should check whether or not you will get the full state pension. The pension is based on your National Insurance contributions and in some cases it is possible to top these up. Go to the check your state pension website at www.gov.uk/check-state-pension to find out how much you will get.

Do you have pensions from previous employers?

Have you worked for more than one employer? If you have, then you are likely to be a member of more than one pension scheme. Dig out the paperwork and contact the pension scheme to find out how much you are likely to be entitled to and when. It is worthwhile also finding out what the transfer value is.

Do all your pensions give you a guaranteed amount?

Public sector pensions generally give you a guaranteed income for the rest of your life when you retire. These are known as defined benefits pensions. Private sector pensions generally provide you with a pot of money and it is up to you how you use it to generate the income you need for the rest of your life. These are known as defined contribution pensions as they are based on the amount that has accumulated in the pot over time.

Will your pension income be enough?

If you have had a career break for whatever reason, or if you have not made additional contributions into your pension, you may find that the total amount of income you will receive from your various pensions is not enough for you to live the life you envisage once you stop work.

How to get more income

Well, you could consider working longer, and delay taking your pensions. Maybe you have savings you can use to generate more income. What about your home? If you have a spare room you could rent that out, but that may not be the kind of retirement you envisaged. Maybe you could downsize, but moving home is expensive and you need to be sure that it would give you the extra cash you need. If you own your home you may be eligible for what is known as a lifetime mortgage.

Consult a professional financial adviser

If all this sounds a bit complicated, then talk to a professional financial adviser.

The value of your investments, and the income you receive from them, can go down as well as up. A pension is a long-term investment and inflation will reduce how much your income is worth over the years. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation.

We can help

We can help you find out how much you have in your various pension schemes and work out whether they will give you enough income when you retire. If they won't, then we can recommend ways you may be able to generate the additional income you need.

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